

Item No. 10.	Classification: Open	Date: 21 September 2010	Meeting Name: Cabinet
Report title:		Quarter 1 Revenue Monitoring Report – 2010/11	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance and Resources	

FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE AND RESOURCES

1. The report below sets out the current forecast for the general fund and the housing revenue account for 2010/11 based on month 3 revenue monitoring.
2. Cabinet should note the adverse variances currently forecast. The position is not unusual for the authority at this point in the year and these variances should be manageable if the actions set out in the report are undertaken. A particular issue this year has been the unprecedented imposition of in-year cuts by central government.
3. However, these variances need to be tackled promptly if we are to remain within budget for the year. The recommendation below therefore requests strategic directors to take the further action necessary to manage the cost of services within the agreed budget.
4. Cabinet are also asked to note the treasury management activity for the first quarter of 2010/11. No new borrowing was taken in this period and debt to fund past capital spending remains at £762m. No debt is due to mature in this financial year. The council's investments total £231.8m and the low level of return from this, given the current state of money market rates, should be noted.

RECOMMENDATIONS

5. That the cabinet notes:
 - the general fund outturn forecast for 2010/11 and the forecast net movement in reserves;
 - the general fund budget movements and explanations;
 - the housing revenue account's (HRA) forecast outturn for 2010/11 and movement in reserves.
6. That the cabinet notes the treasury management activity for the first quarter of 2010/11.
7. That Cabinet instructs Strategic Directors to take further necessary action to manage the cost of services within the agreed budget.

BACKGROUND INFORMATION

General fund

8. The council agreed a balance budget of £319.9m on 23 February 2010 based on a nil council tax increase.
9. The budget plan recognised a number of key commitments and cost pressures. In children's services there has been a significant increase in the number and complexity of cases where children require social care intervention and support, at a time that additional rigour is being applied from external regulation and inspection particularly with regard safeguarding. These demands are driving up cost pressures within the social care system. This is compounded by the issue of retaining and recruiting high quality staff which has been reported on a national scale.
10. The health and community services budget includes a commitment of £1.5m which is supporting approximately 30 young adults with learning disability care needs in transition to adult social care.
11. Other significant commitments include some £3.9m resulting from pressures beyond the control of the council, for example, external factors resulting from increased regulatory burdens. These include pressures within the law area and in the field of health and safety. Commitments include proposed changes to the allocations of concessionary fares (£2m) across London that would have a direct impact on council finances, aligned with potential changes to how this is resourced from central government. Remaining commitments of £1.9m relate to a number of factors, the most significant of which include £940k pension costs and £545k relating to contract pressures within the revenues and benefits services.
12. The effect of continued economic uncertainty on council services requires close management and £4.0m of commitments were included in 2010/11 to ensure that there is sufficient flexibility in the council's broader resource base so that it can respond to the impact of economic uncertainty and service pressures.
13. The council also approved target efficiency savings of £13.4m within general fund and a further £7.3m within the housing revenue account. Performance on achieving these savings is closely monitored and details are provided in paragraphs 33 to 37 below.
14. In view of the current economic climate and uncertainty with regards future grant settlements, the Finance Director and other Chief Officers will closely monitor and review business plans, budgets and processes.

Treasury management

15. At the time of setting the budget, the council held some £258m in cash and £762m in debts. The cash earns interest until it is needed in spending and the debt funds current and past capital spend met through borrowing. In managing these activities local authorities should, under the Local Government Act 2003, have regard to guidance on investments and sums set aside to repay debt issued by the Government and the Treasury Management in the Public Services Code of Practice and the Prudential Code for Capital Finance in Local Authorities, issued by the Chartered Institute of Public Finance and Accountancy CIPFA.

KEY ISSUES FOR CONSIDERATION

Current forecast position

16. Currently there is an unfavourable variance of £4.2m projected for the general fund in 2010/11 based on the limited information available up to the end of June. At present, these estimates do not reflect the impact of the stringent management action being implemented by the strategic directors to address this position as it is too early in the process. However this will be closely monitored and further updates will be given in the subsequent monitors. All strategic directors are working to ensure that by the end of the year the budget, as agreed through the policy and resources strategy in February by council assembly, will be delivered on target.
17. This level of unfavourable variance is not inconsistent with projections at this point in previous years. Quarter 1 monitors for 2007/08, 2008/09 and 2009/10 showed unfavourable variances of £5.572m, £2.867m and £5.878m respectively.
18. The overall forecast position is as follows:

Table 1 – Summary forecast outturn

Account/Fund	Forecast outturn variance adverse / (favourable) £'000
General fund	4,189
HRA	4,215
Collection fund	1,135

General fund budget month 3 monitor

19. Table 2 below shows the current forecast outturn position for quarter 1 (based on Month 3 – as at 30 June 2010) by department.

General fund	2010/11 Original budget	Budget movements	2010/11 revised budget as at month 3	2010/11 Forecast outturn at month 3	Variance - over / (under)
	£'000	£'000	£'000	£'000	£'000
Children's services	99,674	(256)	99,418	99,818	400
Health and community services	118,810	(105)	118,705	121,117	2,412
Environment and housing	76,074	(226)	75,848	76,916	1,068
Regeneration and neighbourhoods	26,968	(628)	26,340	26,739	399
Major projects	3,328	1,362	4,690	4,690	0
Deputy chief executive	46,271	(458)	45,813	45,813	0
Communities, law & governance	13,070	(45)	13,025	13,025	0
Finance & resources	34,727	(2,445)	32,282	32,192	(90)
Support costs recharge income	(58,858)	0	(58,858)	(58,858)	0
Strategic and corporate	1,606	1,834	3,440	3,440	0
Total general fund before appropriations	361,670	(967)	360,703	364,892	4,189
Appropriations to/(from) reserves	2,195	967	3,162	3,162	0
General fund total	363,865	(0)	363,865	368,054	4,189
Area based grant	(43,956)	0	(43,956)	(43,956)	0
Net total	319,909	(0)	319,909	324,098	4,189
Schools budget	0	0	0		0
Appropriation to/(from) DSG reserves	0	0	0		0
Total	319,909	(0)	319,909	324,098	4,189

Note: Explanations of budget movements are provided in appendix B.

Children's services

20. The children's service financial position is forecast to be an adverse variance of £400k due to ongoing social care related cost pressures of social worker recruitment and retention. It is hoped that, during the financial year this cost pressure will be either managed 'down' or mitigated by other favourable variances. Placements' for looked after children, a key budget pressure, is currently forecast as within budget supported by an additional £1.17m investment in 2010/11. Children's services are forecast on track to meet the £2.2m savings targets identified as part of the 2010/11 budget process.

21. Children's services budget pressures are being addressed in the context of a series of in year budget cuts as a part of the government announcements to reduce the national deficit. These budget revenue cuts now stand at £2.45m, equivalent to 2% of core funding.

Health and community services

22. Health and community services is forecasting an adverse variance of £2.4m at 30 June 2010 for 2010/11.
23. There are two major reasons for the forecast overspend. One is delays and complexities in delivering service redesign and the savings programmed. This will be a continued focus of management action.
24. A range of actions to mitigate the budget pressures have been initiated to manage within overall available resources. This is in the context of pressures, particularly in the area of younger disabled people.

Environment and housing

25. The overall variance of £1m should be considered as a cautionary forecast at this stage of the financial year. £200k relates to unbudgeted service closures costs due to loss of income claimed from fusion for the Camberwell Leisure Centre, where the external funding was secured and capital works were programmed after the revenue budgets were finalised. The other £800k is due to the delays in the implementation of the new structure in the wardens service. On the plus side, there also may be one off savings within the waste management contract due to reduction in waste tonnage. However, it is too early to quantify the resulting savings. This coupled with management action currently being reviewed, it is anticipated that the overall variance will decrease significantly.

Regeneration and neighbourhoods

26. The regeneration and neighbourhoods department is projecting an overall adverse variance of £399k.
27. The main reason for this forecast is a lower than expected fee income within building control and development management unit. While the number of applications has slightly increased compared to this time last year, the average value of each application has reduced. This is attributed to the continuing sluggishness of the property market. This forecast income shortfall is being closely monitored with a view to taking management action if the trend continues into the 2nd quarter.
28. Favourable variances forecast within the housing options service and departmental business support help to limit the overall variance forecast for the department.

Major projects

29. The budget and forecast outturn for the major projects service reflects a contribution from the HRA of £1.545m in relation to the Aylesbury project and planned use of reserves in respect of Southwark schools for the future secondary programme of £392k, and the Bermondsey Spa and Canada Water projects of £980k. The use of reserves is being reviewed before confirmation for the formal application and approval process.

Deputy chief executive

30. The deputy chief executive's department (DCE) is currently forecasting a nil variance for 2010/11. The figures include organisational development and the corporate programme unit, which were transferred to children's services and finance & resources respectively with effect from 1 January 2010. They still report to the DCE on the SAP structure, and they will be included in their new departments' monitoring reports when the budgets have been transferred on SAP.

Housing revenue account

31. Initial forecast at month 3 shows adverse £4.2m variance against budget. Following on from last year, underlying spending pressure remains in the system, particularly in relation to the management and maintenance of the housing stock which is subject to management action with a view to achieving a balanced outcome by year-end. In addition, the report highlights a number of potential and known costs, e.g. Heygate and Aylesbury regeneration and exceptional items such as Lakanal and Sumner, which in totality are forecast to exceed budget. In the event, any budget shortfall becomes a first call against HRA reserves, subject to availability.

32. Table 3: Estimated projection of HRA outturn position for 2010/11 as at 30 June 2010 (M03)

	Net Expenditure		
	Full Year Budget £'000	Forecast Outturn £'000	Forecast Variance £'000
<u>Regeneration & neighbourhoods</u>			
Housing Strategy & Options - Community Housing Services	1,767	1,768	1
Housing Strategy & Options - Strategy & Regeneration	1,728	1,797	69
<u>Strategic services</u>			
Debt Charges & Financing	101,201	101,231	30
Major Project Costs	6,000	7,200	1,200
<u>Environment & housing</u>			
Housing Management	(96,045)	(93,505)	2,540
Home Ownership Unit	(28,679)	(28,294)	385
Other Services	14,028	14,018	(10)
<u>HRA carry forward</u>	0	0	0
Housing total	0	4,215	4,215
Contribution from reserves			(4,215)

Savings and efficiencies - 2010/11 budget - Quarter 1

33. For the general fund and HRA combined, the council targeted savings and efficiencies of more than £20m in 2010/11. These savings are monitored closely throughout the year as their delivery is important to the achievement of the council's business plan and to support the delivery of critical services to residents and businesses. A summary of the current position is shown in table 4 below.

Table 4: Savings and efficiencies as at Quarter 1

	Agreed by Council £'000	Total Forecast Savings £'000	Variance £'000
Children's services	(2,200)	(2,200)	0
Health and community services	(3,280)	(2,410)	870
Environment and housing	(1,528)	(1,528)	0
Regeneration and neighbourhoods	(907)	(807)	100
Major projects	(220)	(220)	0
Communities, law and governance	(583)	(583)	0
Deputy chief executive	(820)	(820)	0
Finance and resources	(893)	(878)	15
Corporate	(3,000)	(3,000)	0
Total General Fund	(13,431)	(12,446)	985
HRA	(7,328)	(5,729)	1,599
Total Savings 2010/11	(20,759)	(18,175)	2,584

34. In health and community services there is a £870k variance due to the following projects;
- learning disabilities - £300k slippage due to CQC delays in de registration
 - homecare - £470k slippage due to contractual complexities
 - implementation of corporate approach to welfare rights service (£100k) has been delayed
35. In regeneration and neighbourhoods, there is a £100k variance in the budgeted and projected income from advertising boards. Less than 20% of the expected 1st quarter target receipts were realised. Officers are exploring other savings options to enable all budgeted savings to be achieved during 2010/11.
36. In finance and resources a variance of £15k is being reported. This is a result of property being let out later than was expected and as such will bring in less revenue over the year. Some of this variance should be mitigated through insurance premiums which will be added to rents.
37. There are a number of variances from budget that comprise the likely underachievement of £1.6m. within the HRA.
- Anticipated savings of £1m proposed through improving the Quantity Surveying function by bringing it in-house may not now be realised in full in the current year. A concerted programme of management action is in place to address this and the new Quantity Surveying team have now shifted its focus to the R&M contract, where they have identified operational problems with the contract. New procedures to ensure consistency of void work specifications will deliver significant savings, but may not be sufficient in the short-term to

fully mitigate the early outturn forecast. Q2 should give a more realistic assessment of progress and likely outturn.

- Plans to introduce a differential charging policy for garages has slipped as early proposals have been modified following consultation with residents. Initial income projections are forecast to be below target by £450k. A report setting out proposals to increase garage rents is due to be considered by Cabinet in September, which will go some way to mitigate the position in the current year and provide a more consistent charging baseline for the future.
- £33k of additional commercial income assumed for 2010/11 is now unlikely to be achieved. This figure was predicated on previous activity levels which are being adversely affected by higher voids, due to the economic downturn. However, there is an expectation that this will be offset by reductions on the expenditure side. This activity is subject to review during 2010, with a view to improving the net budget position.
- Budget savings arising from the accommodation review will not now be fully realised during 2010/11. It is estimated that around half of the £0.2m savings identified can be delivered in year one, with the full sum achievable from year two onwards.
- Efficiency savings of £63k identified through the rationalisation of secretarial and administrative support to the Housing Strategy & Options division has had to be scaled back to £47k leaving a shortfall of £16k. However, it may be possible to mitigate this through other savings within the division over the remainder of the year.

Reserves

38. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained to finance calls for expenditure for items that are difficult to predict and that are not included in revenue budgets or within the capital programme. They relate especially to invest to save opportunities that form part of the modernisation agenda and expected to deliver future ongoing revenue savings. They are also held for investment in regeneration and development where spend may be subject to unpredictable market and other influences.
39. This year the current projected net movement on reserves include:
- a significant contribution to reserves for technical accounting reasons in relation to smoothing the rental charge for Tooley Street over the first five years. This effectively allows the council to reflect the average rent charge over this period taking into account the rent free period.
 - a call on reserves in respect of the regeneration projects around Canada Water and Bermondsey Spa of £980k,
 - and a call of £392k in respect of Southwark schools for the future.
40. The 2010/11 budget includes a planned contribution to reserves of some £2.2m. This includes:
- £900k contribution to the modernisation reserve held for investment in modern ways of working and process re-engineering and that allow for efficiency savings to be delivered in the future
 - £300k set aside for the future costs that will arise through changes in the

council's management structure as the modernisation agenda is taken forward

- £1m contribution to reserves to support the ongoing regeneration and development agenda within the borough.

41. The table below show summarises the projected movements in reserves.

Table 5 - Summary of projected reserve movements in 2010/11

Reserve	2010/11 opening balance £'000	Projected change in reserves £'000	Release of reserve for capital £'000	2010/11 forecast closing balance £'000
General fund earmarked	(61,377)	(3,162)		(64,539)
DSG reserve	(4,010)			(4,010)
Schools Balances	(10,114)			(10,114)
HRA earmarked	(14,124)	4,215		(9,909)
Total	(89,625)	1,053	0	(88,572)

Collection fund

42. As a billing authority the council is required to maintain a collection fund account, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and demonstrate the way in which these have been distributed to preceptors and the general fund. The council must take into account the estimated surplus or deficit on the collection fund balance when setting the council tax for the following year.

43. The latest calculations estimate the balance on the collection fund to be a deficit of £1.135m as at 31 March 2011.

44. The estimate is based on June system reports but adjusted for level of 'reliefs and exemptions' applied, which are assumed to be at a level similar to the 2009/10 outturn proportion. This therefore takes into account the sharp increase in exemptions that were applied late on in 2009/10 and resulted in there being a significant difference between the projected and outturn position in 2009/10.

45. Although the number of properties per the valuation office listing has increased since the 2010/11 council tax setting, the estimated deficit position has increased by £439K. This is because it is anticipated that more properties will fall under the 'reliefs and exemptions' than had been expected.

Treasury management

46. At 30 June 2010, the council had £762m in debt and £232m in cash. The debt funds past capital expenditure not otherwise met from capital receipts, grants or revenue, and the cash is invested until it is used in spending.

47. The council continues to take a cautious approach to investing in the face of ongoing concerns about the economic recovery and in the interest of security and liquidity the cash is only placed on deposit with major banks/building societies, money market funds, and bonds issued or guaranteed by the UK government or

supranational bodies such as the European Investment Bank and the International Bank for Reconstruction and Development (the World Bank).

48. Three investment firms (AllianceBernstein, Aberdeen Fund Management and Invesco Asset Management) manage the council's exposure to certificates of deposits (liquid bank deposits) and bonds and an in-house operation focuses on meeting day to day cash volatility using money market funds, call accounts and short term deposits.
49. The sum invested with each counterparty at 30 June 2010 is set out below. The part-year return for the quarter to June 2010 was 0.3%, reflecting the very low level that money market rates have been at since last year.

COUNTERPARTY EXPOSURE & RATING at 30 June 2010						
Counterparty	£m	Long Term Rating	Short Term Rating	Support Rating	COUNTRY	Country Rating
BARCLAYS BK	14.0	AA-	F1+	1	UK	AAA
BANQUE NATIONALE de PARIS	4.6	AA-	F1+	1	FRANCE	AAA
CREDIT AGRIC CIB	7.0	AA-	F1+	1	FRANCE	AAA
CREDIT INDUST ET COMRCL	5.4	AA-	F1+	1	FRANCE	AAA
DANSKE BK	0.5	A+	F1+	1	DENMARK	AAA
EUROPEAN INV BK	15.4	AAA	F1+		SUPRANATIONAL	AAA
GLOBAL TREAS FUNDS-MMF	0.1	AAA			MONEY MKT FUND	
HSBC	0.4	AA	F1+	1	UK	AAA
ING BK	12.5	A+	F1+	1	NETHERLANDS	AAA
INT BK RECONST DEVT	2.8	AAA	F1+		SUPRANATIONAL	AAA
LCR FINANCE-UK GUARANTD	10.7	AAA	F1+	1	UK	AAA
LLOYDS TSB/BK SCOTLAND	27.1	AA-	F1+	1	UK	AAA
NATIONWIDE BSOC	18.7	AA-	F1+	1	UK	AAA
NORDEA BK FINLAND	11.0	AA-	F1+	1	FINLAND	AAA
RABOBANK	0.5	AA+	F1+	1	NETHERLANDS	AAA
RBS/NATWEST	30.0	AA-	F1+	1	UK	AAA
SANTANDER UK	8.6	AA-	F1+	1	UK	AAA
SOCGEN	7.0	A+	F1+	1	FRANCE	AAA
UBS	4.0	A+	F1+	1	SWITZERLAND	AAA
UK TREASURY	51.5	AAA	F1+		UK	AAA
Grand Total £m	231.8					

50. No new borrowing was taken this quarter and debt to fund past capital spending remains at £762m, the level it was at throughout 2009/10. All debts are at fixed rates from the Public Works Loans Board (a division of HM Treasury and a competitive source of funds). There is no debt maturing this year so no replacement finance is needed. However funds may be needed to pay for future capital expenditure ahead of receipts or other funding.

Community impact statement

51. This report monitors expenditure on council services, compared to the planned budget agreed in February 2010. Although this report has been judged to have no or a very small impact on local people and communities, the projected expenditure it is reporting reflects plans designed to have an impact on local people and communities, which will have been considered at the time the services and programmes were agreed. It is important that resources are efficiently and effectively utilised to support the council's policies and objectives.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
2010/11 revenue monitoring	160 Tooley Street	Vernon Smith 0207 525 57355
2010/11 treasury activity		Karsan Varsani 0207 525 54301

APPENDICES

No.	Title
Appendix A	Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)
Appendix B	Explanation of budget movements shown in Table 2

AUDIT TRAIL

Cabinet member	Councillor Richard Livingstone – Finance and Resources	
Lead officer	Duncan Whitfield - Finance director	
Report author	Cathy Doran, Head of budgets, monitoring and programming	
Version	Final	
Dated	10 September 2010	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Communities, Law & Governance	No	No
Finance Director	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to constitutional team		10 September 2010

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Service and Division	Explanation
Children's services	
Specialist children's services Budget £ 52,304k Forecast £ 52,704k Variance £ 400k	<p>The children's service financial position is forecast to be an adverse variance of £0.4m due to ongoing social care related cost pressures of social worker recruitment and retention. It is hoped that, during the financial year this cost pressure will be either managed 'down' or mitigated by other favourable variances. Purchase Placements, a key budget pressure, is currently forecast as within budget; supported by an additional £1.17m investment in 2010/11.</p> <p>Children's Services are forecast on track to meet the £2.2m savings targets identified as part of the 2010/11 budget process.</p>
Health and community services	
Summary Budget £ 118,705k Forecast £ 121,117k Variance £ 2,412k	
Commissioning Budget £11,768k Forecast £12,257k Variance £ 489k	There are pressures relating to savings from the block contract review because of the complexity of the contract.

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Health and community services	
Physical Disabilities Budget £ 11,584k Forecast £ 12,210k Variance £ 626k	There are continuing pressures in care budgets (homecare and placements) due to a small number of clients with high needs.
Welfare rights Budget £ 178k Forecast £ 406k Variance £ 228k	There is a corporate review of council-wide benefits advice service, which has been delayed.
Older People/ Intermediate Care Team Budget £ 25,307k Forecast £ 25,890k Variance £ 583k	Slippage relating to an ongoing project to review community packages in respect of older people.
Community Care Management Budget £ 200k Forecast £ 559k Variance £ 359k	Provision has been made for the cost of the upgrade to CareFirst amounting to £500k for which there is no budget provision. A bid for capital funding has been made.
Learning Disabilities (Pool and Non Pool) Budget £ 29,732k Forecast £ 30,286k Variance £ 554k	There are continuing pressures in learning disabilities (homecare and placements) due to more sophisticated needs of clients and improving life expectancy.
HSC Other Budget £ 39,936k Forecast £ 39,508k Variance (£ 428k)	Lower than budgeted spend in Mental Health services and general efficiencies.

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Environment and housing	
<p><u>Summary</u></p> <p>Budget £76,074k Forecast £77,139k Variance £ 1,068K</p>	
<p>Public Realm</p> <p>Budget £14,184k Forecast £14,184k Variance £ 0k</p>	<p>Similar to other authorities the overall Parking PCN issuances is below target. The risk is quite high that the target income for the year may not be achieved. The economic downturn and better compliance are the causes of the deficit.</p> <p>However, it is too early to estimate the potential reduction in income. The division is therefore, currently projected to be within budget.</p> <p>As a result of delay in implementing increased fees and charges proposed for Street Markets and actions taken to strengthen the management of the unit, the planned reduction of deficit brought forward from previous years will not be implemented in time. The Head of Service is working on a number of measures to reduce the deficit and put the accounts on a better footing.</p>
<p>Community Safety</p> <p>Budget £15,516k Forecast £16,283k Variance £ 767k</p>	<p>The adverse variance is predicted within the wardens business unit. No income has been recognised for 2 contracts which are in the final stages of negotiation. There have been delays in the implementation of aspects of the new structure. In addition, the staffing requirements for the new contracts have not yet been finalised. Due to these uncertainties, the current staffing level is projected for the whole year, resulting in an adverse variance. The head of division is preparing a detailed action plan and is confident that significant reductions can be made to minimise the variance by year end.</p>

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Environment and housing	
Sustainable Services Budget £31,372k Forecast £31,328k Variance (£ 44k)	<p>The division is currently projecting an overall favourable variance of £44k mainly as a result of additional income generated from pest control services.</p>
Culture, Libraries, Leisure and Learning Budget £14,499k Forecast £14,844k Variance £ 345k	<p>Libraries: Forecast to come in on target.</p> <p>Leisure: Current forecast is an adverse variance of £345k. There are pressures totalling £210k that relate to seven months worth of compensation (£30k per month) payable to Fusion for income loss on Camberwell Leisure Centre during its refurbishment. These costs were not anticipated at budget stage since the works were programmed later in the year, when external funding became available. Negotiations are underway with Fusion to vary the contract and/or reduce the claim. A further £50k has been built in as contingency for potential closures during the year at the centres not yet in capital programme for refurbishment. Finally, the delayed restructuring within Community Sports, due to long term absence of key staff, is forecasted to cost £50k.</p> <p>Culture: Currently the culture service is forecast to come in on target, although the situation will become clearer after the summer events season.</p> <p>Adult Learning Service: The situation in the adult learning service has been resolved and the forecast is for the service to come in on budget.</p>

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Regeneration and neighbourhoods	
<p>Summary</p> <p>Budget £ 26,340k Forecast £ 27,739k Variance £ 399k</p>	
<p>Planning and transport</p> <p>Budget £ 3,106k Forecast £ 3,608k Variance £ 502k</p>	<p>The adverse variance is mainly due to lower than planned fee income within Building Control and Development Management units. Although the volume of work in terms of BC applications remains at or above the level of a year ago, the average value of each application has reduced disproportionately. The total income underachievement directly attributable to Development Management and Building Control is £345k and £356k respectively. The total forecast income underachievement is mitigated by favourable variances - largely on staffing costs - in other business units within the division</p>
<p>Property services</p> <p>Budget (£ 930k) Forecast (£ 855k) Variance £ 75k</p>	<p>Main reasons for the adverse variance are property voids including Coburg House, unachievable advertising boards income and a much lower service charge income due to less expenditure on repairs and maintenance etc.</p>
<p>Departmental business support</p> <p>Budget £3,787k Forecast £3,722k Variance (£ 65k)</p>	<p>Favourable variance is mainly due to staff vacancies across the two units in the division that are not expected to be filled. Also contributing are favourable variances on other running costs.</p>

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Regeneration and neighbourhoods	
Housing options service Budget £15,768k Forecast £15,660k Variance (£ 108k)	There is an adverse variance projected within Community Housing Services of £24k due to increased legal and court fees. However, the net favourable variance is mainly due to unbudgeted grant income.
Deputy chief executive	
Summary Budget £ 45,813k Forecast £ 45,813k Variance £ (0k)	There are no major variances in Month 3. An inquest is to be held by the Southwark Coroner's Service into the deaths caused by the fire that occurred in Lakanal House on 3 July 2009. It is not known when the inquest will begin or how long it will last, but it is thought that it may not begin until 2011. The cost of the inquest is likely to be substantial and it is not yet known how it will be funded, and there may be some preliminary costs associated with it in the current financial year. No further significant risks have been reported for the department at this stage of the financial year.
Communities, Law & Governance	
Summary Budget £ 13,025k Forecast £ 13,025k Variance £ (0k)	The department may be expected to find additional in-year savings as a result of reduced ABG and WNF resources, this could affect the provision of ABG and WNF resourced services if the savings requirement is significant and the lead in time is negligible. Also, the move to a 'non-traded' legal services model presents an income risk to the service area.

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Finance and resources	
<p>Summary</p> <p>Budget £ 34,697k Forecast £ 34,607k Variance £ (90k)</p>	<p>Finance & Resources is projected to be on budget for 2010/11.</p> <p>The impending restructure of Information Services Division later this year, will impact on the monitor, but it is too early to quantify at this stage.</p>
<p>Finance Professional Shared Services</p> <p>Budget £ 3,912k Forecast £ 3,628k Variance £ (284k)</p>	<p>There is a projected favourable variance due to vacant posts within this area.</p>
<p>Information Services Division</p> <p>Budget £ 11,078 k Forecast £ 11,282k Variance £ 204k</p>	<p>There is a projected adverse variance resulting from the development and implementation of ICT improvement tools and plan.</p>
<p>Other services</p> <p>Budget £ 19707k Forecast £ 19697k Variance £ (10k)</p>	<p>There are small variances in departmental finance and financial governance that sum to a favourable position of (£10k).</p>

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Housing revenue account	
HRA summary Budget £ 0k Forecast £ 4,215k Variance £ 4,215k	
Regeneration & Neighbourhoods (HRA) Budget £3,495k Forecast £3,565k Variance £ 70k	<p>Housing Strategy & Options comprises the former divisions of Community Housing Services (CHS) and Strategy & Regeneration (S&R). For monitor purposes they are reported separately.</p> <p>The forecast reflects some underlying cost pressure on the S&R side as they lead on a number of council priorities designed to deliver revenue savings and generate additional capital receipts for investment purposes. The level of capitalisation permissible under current regulations is also under review which may compound the position.</p> <p>On the TA side, hostel and estate voids are broadly tracking on budget, but this is an area sensitive to supply/ demand fluctuations and requires close monitoring to minimise potentially adverse budgetary movements.</p>
Strategic Services (HRA) Budget £107,201k Forecast £108,431k Variance £ 1,230k	<p>Debt Charges & Financing +£30k</p> <ul style="list-style-type: none"> This activity comprises all central overheads and non-operational functions within the HRA, specifically housing subsidy, debt financing, CERA and support cost recharges (SCRs) and other shared service functions provided to the HRA. Unavoidable variations from budget during 2009/10, most notably reductions in leaseholder major works billing and cash flow interest receivable have been addressed as part of budget setting for 2010/11 and should not recur.

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Housing revenue account	
	<p>Major Projects +£1,200k</p> <ul style="list-style-type: none"> • Heygate and Aylesbury regeneration projects continue to place a heavy financial burden on the HRA, particularly in relation to re-housing and decommissioning costs, including security and council tax on voids. This is estimated at £4.6m in the current year. • In addition, exceptional costs relating directly to the Lakanal and Sumner fires are not in the base budget. All landlord costs falling to the council after insured losses will continue to be met through a combination of HRA revenue, earmarked reserves and Housing Investment Programme resources; this is estimated at £2.6m in the current year (not including the potential cost of a Public Enquiry). • This gives a total forecast of £7.2m against a budget of £6m, giving rise to a variance of £1.2m at this point. New and emerging commitments arising from the associated programme of safety works will also impact in the current year and require re-distribution or re-profiling of resources within Housing Management to meet them as there is no new money available and carry forward resources are limited.
<p>Environment & Housing (HRA)</p> <p>Budget (£110,696k) Forecast (£107,781k) Variance £ 2,915k</p>	<p>Housing Management +£2,540k</p> <ul style="list-style-type: none"> • This represents the largest controllable area of expenditure within the HRA, but also the area of greatest pressure to spend on the fabric of the stock. At this point, the forecast shows an adverse variance of £2.54m comprising: • R&M contract +£1,900k – volumes and unit costs continue to run at pre 2010/11 rates and not at a run rate commensurate with the level of resources available this year. In order to bring the contract back in line with budget, the following actions are taking place: <ul style="list-style-type: none"> ○ The new in-house quantity surveying (QS) function has now shifted its focus to the repairs and maintenance (R&M) contract. Problems have been identified with the contractors' use of codes under the new contract. Using this information, the QS team have re-profiled the projected expenditure and, if successful in seeking re-imburement from the contractors, expect expenditure to come in on budget by the year-end.

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Housing revenue account	
Environment & Housing (HRA) continued	<ul style="list-style-type: none"> ○ A review of the void specification was undertaken by the QS team and highlighted inconsistencies in the interpretation of the lettable standard and the work being raised by the contractors. New procedures are being developed to ensure there is consistency in the void work specifications. The QS team also expect to be reimbursed by the contractors for over booking on voids. • Other R&M +537k – increased expenditure incurred as a result of the borough-wide roll-out of dry-risers and lightning protection works following the Lakanal and Sumner fires. • Consultant services +£649k –Completion of the stock condition survey and FRA works programme. • Heating contract -£967k – efficiencies and savings continue to accrue on the new heating contract as a result of improved contract management. • Lift contract – neutral forecast at this point until new contract arrangements are in place, but presents a risk moving forward. <p>Rent & Tenant Service Charge Income/ Collection</p> <ul style="list-style-type: none"> • Adjusted collection performance at week 13 is 99.98% (housing management) and 100.97% (all HRA including temporary accommodation). In terms of rent and void debit, the outturn forecast is neutral against budget at this point. • On the non-residential property side, the Executive in January 2010 agreed to defer any decision on increasing garage rents pending review and move towards a differential charging policy. Income assumptions built into the budget at that time will not now be achieved as planned implementation has slipped. The shortfall is currently estimated at £350k (based on an October implementation), but is offset against a retained contingency within the HRA.

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Housing revenue account	
Environment & Housing (HRA) continued	<p>Home Ownership +£385k</p> <ul style="list-style-type: none"> • HOU +£172k – variance is predominantly due to a reduction in the value of capitalisation that can be offset against receipts in response to stricter interpretation of the regulations by the Audit Commission, and reduced interest receivable on the home loans portfolio. • Capital Service Charges – Capital works billing is scheduled for October 2010. The income budget for 2010/11 has been revised downwards to £8m following the shortfall incurred during 2009/10. This represents a more realistic and prudent expectation in budget terms moving forward. Collection performance shows £1.8m (including Major Works loans) has been collected against a full year target of £8.5m. • Revenue Service Charges – £15.1m has been billed as at the end of month 3 against a full year budget of £16.4m. Collection performance shows £4.49m has been collected to date, which would indicate the full year target of £16m is likely to be exceeded. • Commercial Property +£213k – one of the main factors for this adverse variance is a shortfall in the income stream. This activity is subject to review during 2010, with a view to improving VFM. • Tenant Management Organisations – Currently forecast on budget, but need to monitor rent debit and allowances closely to avoid recurrence of budget shortfall last year. <p>Other HRA Services -£10k This activity comprises the full range of services provided to the HRA managed by Environment & Housing (excluding Housing Management), such as grounds maintenance, estate cleaning, pest control, community safety, enforcement and ASB, CCTV, estate parking and energy management. Stated position is to be treated with caution as there are some known pressures emerging in estate parking and community safety which are not reflected in the monitor projection at this point.</p>

Detailed explanation of key forecast outturn variances from budget as at 30 June 2010 (M03)

Housing revenue account	
<p>HRA Reserves</p> <p>Budget N/a Forecast (£4,215k) Variance N/a</p>	<p>The ring-fenced nature of the HRA requires that deficits/ surpluses are carried forward between years, thereby giving rise to fluctuations in the level of reserves. Any deficit will be a first call on reserves, subject to availability. Failing that, the deficit would need to be recouped in the following financial year through the delivery of additional savings.</p> <p>HRA reserves stand at £14.2m at 1.4.10 (subject to audit), down from £18.2m the previous year, of which £12.7m is either committed or held against specific financial risks. Given the size of Southwark's HRA (c. £265m), this is not considered sustainable and represents an increasing risk moving forward, which will be considered as part of the medium term resource strategy.</p>
<p>HRA Carry Forwards</p> <p>Budget £0 Forecast £0 Variance £0</p>	<p>Resources can be specifically earmarked within HRA reserves to fund specific projects and revenue cost pressures of a one-off or time limited nature, outside of the mainstream base budget. Expenditure is recorded in the revenue account and contributes to the overall outturn position. In some cases they are programmed to span more than one financial year or may incur slippage, whilst others such as the Tenant Fund and Leaseholder Fund are deemed to be commitments.</p> <p>For 2010/11, the level of resources available for carry forward has fallen to its lowest point (£1.47m). As it stands, there is little or no prospect of carry forward resources being available in subsequent years. Moreover, if the budget situation is not neutral by year-end, it may warrant the claw back of adverse variances through top slicing 2011/12 departmental budget allocations.</p>

Explanation of budget movements shown in Table 2

Department from	Department to	Amount £'000	Reason
DCE	Strategic Finance	419	Transfer of human resources savings budgets.
F&R	DCE	28	Transfer of health and safety officer post to human resources .
Regeneration and neighbourhoods	Strategic finance	545	Variation of contracts within community housing services.
Appropriations	Major projects	980	Planned release of reserve for Canada Water and Bermondsey Spa.
Appropriations	Major projects	392	Planned release of reserve for Southwark schools for the future.
Finance and resources	Appropriations	2,339	Technical adjustment to smooth the rental cost for the Council's offices at Tooley Street.
All departments	Strategic Finance (contingency)	885	Claw back of inflation provided on employee budgets in anticipation of the proposed pay freeze in 2010/11.